E-MAIL ALSPO M/07

SUBJ: STATE TAX EXEMPTION STATUS FOR RESIDENTS OF ARIZONA OR NEW MEXICO

Ref: (a) Personnel and Pay Procedures Manual, PSCINST M1000.2(series), Chap 8B

Introduction

This E-mail ALSPO message provides procedures for withholding state income tax for members claiming Arizona or New Mexico as their state of legal residence.

Discussion

New Mexico House bill 436 included a new income tax exemption for earnings from **active duty service** in the Armed Forces of the United States for tax years beginning on or after January 1, 2007.

Arizona Senate bill 1027 provided for an exemption of **active duty** military pay for tax year 2006 only. Arizona House Bill 2795 made permanent the state income tax exemption of military income for active duty members of the Armed Forces of the United States and expanded the exemption to include the military income of Reservists and members of the National Guard. This bill is effective on January 1, 2007. According to the Arizona publication "*Taxpayers in the Military*" (available at www.azdor.gov/brochure/704.pdf) the term active service as a Reservist has been interpreted to include all pay received by the Reservist for service performed as a member of the reserve component, including IDT and ADT.

The above exemptions apply whether or not a member is stationed within his or her state of legal residence.

Refund of state income tax withheld

Members, who were residents of Arizona or New Mexico during tax year 2007 can receive a refund of state taxes withheld by filing the appropriate Individual Income Tax Return:

Residents of Arizona should complete the 2007 form 140NR available at: http://www.azdor.gov/.

Residents of New Mexico should complete the 2007 PIT-1 form and form PIT-ADJ available at: http://www.tax.state.nm.us/.

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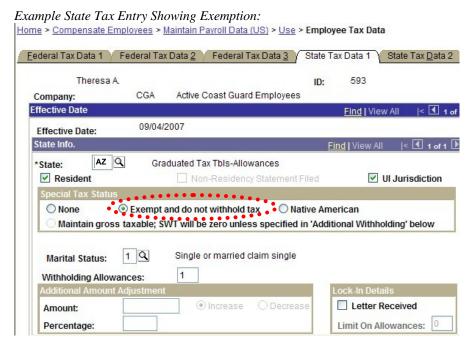
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Requesting exemption from 2008 state income tax withholding Arizona and New Mexico residents, who expect to have no state income tax liability for tax year 2008, should enter "EXEMPT" in block 7 of IRS form W4 (http://www.irs.gov/pub/irs-pdf/fw4.pdf), annotated with "For State Tax Withholding Purposes Only", and forward it to their SPO.

SPO Action

The SPO will enter the exemption, in accordance with the Direct Access <u>State</u> <u>Tax Withholding Data Entry Procedures</u>, upon receipt of the annotated IRS form W4 from the member.

• The SPO shall indicate "Exempt and do not withhold tax" in the Special Tax Status block of the State Tax Data 1 page.



Note: Members **cannot** use Direct Access Self-Service to make this change. Self-Service only provides the ability to change the number of allowances, additional withholding amount and marital status.

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Directives affected

Arizona and New Mexico state tax exemption rules for military personnel will be incorporated into the next change to reference (a).

Questions

Questions regarding the content of this E-Mail ALSPO may be directed to PSC Customer Care at:

(785) 339-2200

<u>http://www.uscg.mil/hq/psc/ccb/</u> or by e-mail to <u>PSC-CustomerCare@uscg.mil</u>

Released by Internet release authorized.

/s/

M. P. SULLIVAN Executive Director